

ONTARIO FINANCES

2001-02 SECOND QUARTER

QUARTERLY UPDATE - SEPTEMBER 30, 2001

Ministry of Finance

JAN 23 2002

Fiscal Summary (\$ Millions)

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	Actual 2000-01	Budget Plan	2001-02 Current Outlook	In-Year Change
Revenue	64,682	64,270	64,112	(158)
Expenditure				
Programs	50,075	52,011	52,207	196
Restructuring and Other Charges	31	--	--	--
Total Program Expenditure	50,106	52,011	52,207	196
Capital	2,079	1,944	1,949	5
Public Debt Interest				
Provincial	8,896	8,795	8,736	(59)
Electricity Sector	520	520	520	--
Total Expenditure	61,601	63,270	63,412	142
Less: Reserve	--	1,000	700	(300)
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers*	244	140	140	--
SURPLUS / (DEFICIT)	3,325	140	140	--

* Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

HIGHLIGHTS

2000-01 PUBLIC ACCOUNTS

- ◆ The 2000-01 Public Accounts, released September 21, 2001, reported the 2000-01 audited actual surplus at \$3,325 million, up \$133 million from the \$3,192 million interim estimate in the 2001 Ontario Budget.

2001-02 IN-YEAR PERFORMANCE

BALANCED BUDGET OUTLOOK

- ◆ The 2001-02 fiscal outlook is on track with the Budget Plan. As of September 30, 2001, a surplus of \$140 million is projected, unchanged from the 2001 Ontario Budget and First Quarter Ontario Finances.

REVENUE AT \$64.1 BILLION

- ◆ The revenue outlook, at \$64,112 million, is down \$158 million from the Budget Plan and First Quarter Ontario Finances, mainly due to decreases in corporations tax revenue, partially offset by higher personal income tax revenue.

EXPENDITURE AT \$63.4 BILLION

- ◆ Total expenditure, at \$63,412 million, is up \$142 million from the Budget Plan and First Quarter Ontario Finances, mainly due to increased funding for hospitals, partially offset by savings in Public Debt Interest (PDI).

RESERVE AT \$0.7 BILLION

- ◆ Ontario's 2001-02 Budget Plan included a \$1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. With economic growth slower than projected and consistent with the role of the reserve in prudent budgeting, \$300 million of the reserve has been allocated to ensure the balanced budget target is met. The \$700 million balance of the reserve will be available for debt reduction at year end if not needed.

FISCAL PERFORMANCE

REVENUE

- ◆ The revenue outlook, at \$64,112 million, is down \$158 million from the Budget Plan and First Quarter Ontario Finances. Major changes this quarter are:
 - ◆ Personal Income Tax (PIT) is projected to increase by \$250 million primarily due to higher 2000 PIT assessments than expected at the time of the 2000-01 Public Accounts. This PIT increase is partially offset by the impact of slower wages and salaries growth in 2001, lower expected capital gains income arising from the decline in stock prices this year and the benefits to taxpayers of accelerating tax cuts originally planned for January 1, 2002.
 - ◆ The projection for Corporations Tax revenues has been lowered by \$400 million due to lower expected profit levels this year and the acceleration of corporate tax cuts originally scheduled for January 1, 2002.
 - ◆ The Retail Sales Tax revenue forecast has been reduced by \$50 million as a result of lower consumer and tourist spending expected in the wake of the tragic events of September 11 in the United States.
 - ◆ The Tobacco Tax revenue forecast has increased by \$40 million as a result of the tax increase announced by the federal government which, under Ontario legislation, automatically increases Ontario Tobacco Tax by an equivalent amount.
 - ◆ Miscellaneous Other Revenue is up \$2 million due to an increase in revenue for expanded OPP policing of Highway 407 and policing services provided by the OPP for the towns of Collingwood, New Tecumseth, Orillia and Penetanguishene.

OPERATING EXPENDITURE

- ◆ Net operating expenditure, at \$61,463 million, is up \$137 million from the Budget Plan and First Quarter Ontario Finances. Major changes this quarter include:
 - ◆ Ministry of the Attorney General: An additional \$3 million to assist victims and families of victims of the tragic events of September 11 in the United States, and a \$3 million reduction due to the transfer of funds from operating to capital spending for the Victims' Justice Action Plan.
 - ◆ Ministry of Economic Development and Trade: An additional \$1 million for the Task Force on Productivity, Competitiveness and Economic Progress, fully offset from the Contingency Fund.
 - ◆ Ministry of Energy, Science and Technology: An additional \$2 million for consumer education and communications related to the opening of the electricity market, fully offset from the Contingency Fund.
 - ◆ Ministry of the Environment: An additional \$3 million for development of policy and guidelines for groundwater protection, fully offset from the Contingency Fund.
 - ◆ Ministry of Finance: An additional \$37 million for one-time payments to low- and middle-income working families with children under the age of seven.
 - ◆ Ministry of Health and Long-Term Care: A net increase of \$226 million in the ministry including an expenditure increase of \$300 million for hospitals across the province to better address the changing and rising costs of caring for patients, partially offset by \$73 million in one-time underspending and ongoing administrative efficiencies in the ministry and \$89 million from the Contingency Fund; and an expenditure decrease of \$1 million due to the transfer of funds to the Ministry of Training, Colleges and Universities for capital expenditure related to increased medical student enrolment.
 - ◆ Ministry of the Solicitor General: An additional \$10 million for the Province's counterterrorism and emergency management strategies, and an additional \$2 million for expanded OPP policing of Highway 407 and for OPP policing contracts for Collingwood, New Tecumseth, Orillia and Penetanguishene, offset by increased revenue.
 - ◆ Ministry of Tourism, Culture and Recreation: An additional \$10 million to launch an enhanced tourism marketing campaign.
- ◆ The Public Debt Interest forecast of \$9,256 million consists of \$8,736 million related to the Province's borrowing on its own behalf and \$520 million related to the interest on debt issued for investment in the electricity sector. This forecast is down \$59 million from the Budget Plan and First Quarter Ontario Finances due to lower-than-expected interest rates and cost-effective debt management.

CAPITAL EXPENDITURE

- ◆ Capital expenditure, at \$1,949 million, is up \$5 million from the Budget Plan and First Quarter Ontario Finances. The major changes this quarter are as follows:
 - ◆ Ministry of the Attorney General: An additional \$9 million to permanently relocate East Mall court operations in Toronto, fully offset from the Capital Contingency Fund, and an increase of \$3 million due to the transfer of funds from operating to capital expenditure to be used for the Victims' Justice Action Plan.
 - ◆ Ministry of Education: An additional \$4 million to enhance protection of drinking water in elementary and secondary schools, fully offset from the Capital Contingency Fund.
 - ◆ Ministry of the Environment: An additional \$8 million to assist conservation authorities and municipalities to conduct assessments of groundwater quality and quantity, fully offset from the Capital Contingency Fund.
 - ◆ Ministry of the Solicitor General: An additional \$1 million towards the building of an anti-terrorism training facility at the Ontario Police College and an emergency management training centre for first responders at the Ontario Fire College.
 - ◆ Ministry of Training, Colleges and Universities: An additional \$1 million for capital expenditure related to increased medical student enrolment, transferred from Ministry of Health and Long-Term Care operating expenditure.

Statement of Financial Transactions (\$ Millions)

	Actual 1997-98	Actual 1998-99	Actual 1999-00	Actual 2000-01	Q2 2001-02
Revenue	52,518	55,786	62,931	64,682	64,112
Expenditure					
Programs	43,709	46,509	47,369	50,075	52,207
Restructuring and Other Charges	1,595	76	211	31	--
Total Program Expenditure	45,304	46,585	47,580	50,106	52,207
Capital	2,451	2,187	4,832	2,079	1,949
Public Debt Interest					
Provincial	8,729	9,016	8,977	8,896	8,736
Electricity Sector	--	--	520	520	520
Total Expenditure	56,484	57,788	61,909	61,601	63,412
Less: Reserve	--	--	--	--	700
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers*	--	--	(354)	244	140
SURPLUS / (DEFICIT)	(3,966)	(2,002)	668	3,325	140
NET PROVINCIAL DEBT †	112,735	114,737	113,715	110,634	110,634

* Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

† Net Provincial Debt represents total Liabilities less Financial Assets.

Selected Economic and Fiscal Statistics

	Actual 1997-98	Actual 1998-99	Actual 1999-00	Actual 2000-01	Q2 2001-02
Gross Domestic Product (GDP) at Market Prices (\$ Millions)	359,953	378,124	405,625	429,530	446,282
Ontario Population (000s) - July 1	11,249	11,387	11,523	11,685	11,874
Ontario Revenue as a per cent of GDP	14.6	14.8	15.5	15.1	14.4
Ontario Revenue Growth (%)	6.2	6.2	12.8	2.8	(0.9)
Ontario Total Expenditure as a per cent of GDP	15.7	15.3	15.3	14.3	14.2
Ontario Total Expenditure Growth (%)	0.2	2.3	7.1	(0.5)	2.9
Ontario PDI as a Share of Revenue (%)	16.6	16.2	15.1	14.6	14.4
Ontario PDI as a Share of Total Expenditure (%)	15.5	15.6	15.3	15.3	14.6
Ontario PDI as a per cent of GDP	2.4	2.4	2.3	2.2	2.1
Ontario Surplus / (Deficit) as a per cent of GDP	(1.1)	(0.5)	0.2	0.8	0.0
Net Provincial Debt per capita (\$)	10,022	10,076	9,869	9,468	9,317
Net Provincial Debt as a per cent of GDP	31.3	30.3	28.0	25.8	24.8

Sources: Ontario Ministry of Finance and Statistics Canada.

ONTARIO GDP RISES IN SECOND QUARTER (APRIL-JUNE)

- ◆ Ontario real GDP rose at an annualized pace of 2.3 per cent in the second quarter, following a slight 0.6 per cent decline in the first quarter.
- ◆ For the year 2000, real GDP growth was 5.3 per cent.

JOB GROWTH MODERATES IN 2001

- ◆ Ontario employment is up 106,300 over the first 10 months compared to the same period in 2000.
- ◆ The moderate job creation in 2001 follows solid gains of 184,000 in 2000 and 198,000 in 1999.
- ◆ Ontario's unemployment rate was 6.6 per cent in October.

CONSUMER SPENDING RISING IN 2001

- ◆ Over the first eight months of 2001, Ontario retail sales are up 3.5 per cent from a year ago.

HOUSING MARKET REMAINS STRONG

- ◆ Over the first nine months of 2001, housing starts in Ontario rose 3.6 per cent from the previous year.
- ◆ Ontario home resales are up 7.2 per cent over the first nine months of 2001, compared to a year ago.

EXPORTS DECLINE WITH SLOWER U.S. ECONOMY

- ◆ Over the first eight months of 2001, Ontario merchandise exports fell 2.8 per cent from a year ago, largely as the result of reduced auto exports to the United States.
- ◆ Ontario manufacturing shipments fell 4.2 per cent during the first eight months of 2001, following a 6.2 per cent rise for the year 2000.

RIISING ENERGY AND FOOD PRICES PUSH UP 2001 INFLATION RATE

- ◆ September Consumer Price Index inflation was 3.1 per cent, down from the recent high of 4.3 per cent in April 2001.
- ◆ Higher energy prices pushed up consumer price inflation in 2000 and 2001. Declining oil and gas prices are now translating into lower rates of inflation.

KEY ECONOMIC INDICATORS

(% Change from previous period, unless indicated otherwise)

		Annual	Annual	Quarterly				
		1999	2000	00:2	00:3	00:4	01:1	01:2
Output (Seasonally Adjusted at Annual Rates)								
Real GDP	Ontario	7.4	5.3	2.2	5.1	3.5	(0.6)	2.3
Nominal GDP	Ontario	7.3	5.9	6.5	5.0	(0.8)	4.4	5.0
		Annual	Annual	Monthly 2001				
		1999	2000	June	July	Aug	Sept	Oct
Other Indicators (Seasonally Adjusted)								
Labour Markets								
Labour Force (Change in 000s)	Ontario	157	157	(5.0)	17.9	14.6	(10.6)	(3.0)
Employment (Change in 000s)	Ontario	198	184	(8.3)	(7.2)	(1.5)	(8.9)	(2.9)
Unemployment Rate (%)	Ontario	6.3	5.7	6.0	6.3	6.6	6.6	6.6
Household Sector								
Retail Sales	Ontario	7.3	7.3	(0.8)	(0.1)	0.7	N/A	N/A
Urban Housing Starts (000s)	Ontario	62.9	67.4	81.5	58.2	80.0	64.6	N/A
New Home Sales*	Toronto	29.4	13.3	10.3	11.3	14.1	(28.4)	N/A
MLS Home Resales*	Ontario	7.4	(1.1)	12.1	15.2	10.1	2.0	N/A
Manufacturing Shipments								
Transportation Equipment	Ontario	13.3	6.2	(4.0)	(0.5)	0.5	N/A	N/A
Consumer Price Index*								
	Ontario	1.9	2.9	3.5	3.1	3.4	3.1	N/A

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, Greater Toronto Home Builders' Association, and Canadian Real Estate Association.

* % change from a year earlier

N/A = Data not available

REVENUE

(\$ Millions)	Actual 2000-01	2001-02		
		Budget Plan	Current Outlook	In-Year Change
TAXATION REVENUE				
Personal Income Tax	18,624	18,010	18,260	250
Retail Sales Tax	13,735	14,340	14,290	(50)
Corporations Tax	9,200	8,340	7,940	(400)
Employer Health Tax	3,424	3,620	3,620	--
Gasoline Tax	2,172	2,300	2,300	--
Fuel Tax	648	655	655	--
Tobacco Tax	504	620	660	40
Land Transfer Tax	642	670	670	--
Other Taxation	333	265	265	--
	49,282	48,820	48,660	(160)
GOVERNMENT OF CANADA				
Canada Health and Social Transfer (CHST)	4,138	5,630	5,630	--
CHST Supplements	757	380	380	--
Social Housing	541	530	530	--
Student Assistance	40	64	64	--
Indian Welfare Services	131	117	117	--
Medical Equipment Trust	190	190	190	--
Bilingualism Development	64	64	64	--
Employability Assistance for People with Disabilities	63	39	39	--
Other	205	345	345	--
	6,129	7,359	7,359	--
INCOME FROM GOVERNMENT ENTERPRISES				
Ontario Lottery and Gaming Corporation	2,181	2,000	2,000	--
Liquor Control Board of Ontario	877	890	890	--
Ontario Power Generation Inc. and Hydro One Inc.	928	524	524	--
Other	14	10	10	--
	4,000	3,424	3,424	--
OTHER REVENUE				
Vehicle and Driver Registration Fees	929	925	925	--
Other Fees and Licences	660	685	685	--
Liquor Licence Revenue	525	518	518	--
Royalties	235	240	240	--
Sales and Rentals	637	300	300	--
Independent Electricity Market Operation Revenues	344	159	159	--
Local Services Realignment - Reimbursement of Expenditure	1,432	1,223	1,223	--
Miscellaneous	509	617	619	2
	5,271	4,667	4,669	2
TOTAL REVENUE	64,682	64,270	64,112	(158)

OPERATING EXPENDITURE

(\$ Millions)		2001-02		
MINISTRY	Actual 2000-01	Budget Plan	Current Outlook	In-Year Change
Agriculture, Food and Rural Affairs	401	446	446	--
One-Time and Extraordinary	233	--	--	--
Attorney General	957	979	979	--
Board of Internal Economy	116	117	117	--
Citizenship	77	78	78	--
Community and Social Services	7,620	7,756	7,756	--
Consumer and Business Services	155	168	168	--
Correctional Services	593	610	610	--
Economic Development and Trade	81	106	107	1
Education	7,961	8,471	8,471	--
Teachers' Pension Plan (TPP)	(779)	(230)	(230)	--
Energy, Science and Technology	464	284	286	2
Environment	190	215	218	3
Executive Offices	21	21	21	--
Finance - Own Account	842	773	810	37
Public Debt Interest				
Provincial	8,896	8,795	8,736	(59)
Electricity Sector	520	520	520	--
Community Reinvestment Fund	561	561	561	--
Provision for Electricity Sector	408	4	4	--
Health and Long-Term Care	21,686	23,486	23,712	226
Accelerated Health Care Commitment	498	--	--	--
Major One-Time Health Care Costs	487	190	190	--
Intergovernmental Affairs	4	5	5	--
Labour	104	113	113	--
Management Board Secretariat	214	346	346	--
Retirement Benefits	(209)	30	30	--
Contingency Fund	--	654	551	(103)
Municipal Affairs and Housing	1,792	1,214	1,214	--
Native Affairs Secretariat	16	15	15	--
Natural Resources	417	407	415	8
Northern Development and Mines	113	179	179	--
Office of Francophone Affairs	4	5	5	--
Solicitor General	907	932	944	12
Tourism, Culture and Recreation	360	392	402	10
Training, Colleges and Universities	3,219	3,365	3,365	--
Transportation	593	519	519	--
Year-End Savings	--	(200)	(200)	--
TOTAL OPERATING EXPENDITURE	59,522	61,326	61,463	137

CAPITAL EXPENDITURE

MINISTRY	Actual 2000-01	2001-02		
		Budget Plan	Current Outlook	In-Year Change
Agriculture, Food and Rural Affairs	1	51	51	--
Attorney General	42	55	67	12
Community and Social Services	14	38	38	--
Correctional Services	95	98	98	--
Education	4	16	20	4
Energy, Science and Technology	86	76	76	--
Environment	5	13	21	8
Water Protection Fund	17	5	5	--
Finance	7	13	13	--
SuperBuild Millennium Partnerships	4	100	100	--
Contingency Fund	--	100	79	(21)
Health and Long-Term Care	182	200	200	--
Major One-Time Capital Costs	140	--	--	--
Management Board Secretariat	24	37	37	--
Municipal Affairs and Housing	--	8	8	--
Native Affairs Secretariat	5	7	7	--
Natural Resources	65	99	99	--
Northern Development and Mines	312	327	327	--
Solicitor General	4	9	10	1
Tourism, Culture and Recreation	32	68	68	--
Training, Colleges and Universities	204	51	52	1
Transportation	836	673	673	--
Year-End Savings	--	(100)	(100)	--
TOTAL CAPITAL EXPENDITURE	2,079	1,944	1,949	5

ONTARIO'S 2001-02 FINANCING PROGRAM

(\$ Millions)	Actual 2000-01	2001-02		
		Budget Plan	Current Outlook	Change from Budget
Surplus / (Deficit)	3,325	140	140	--
Accruals and Consolidations	(4,496)	(2,258)	(2,825)	(567)
Maturities*	(8,145)	(9,557)	(9,467)	90
Provision for Early Redemptions	(1,036)	(1,020)	(1,020)	--
Other Sources / (Uses)	(330)	--	--	--
Net Repayments from / (Loans to) Agencies	766	(42)	(42)	--
Decrease / (Increase) in Liquid Reserves	962	2,551	2,551	--
Increase / (Decrease) in Short-Term Borrowing	(113)	--	--	--
Canada Pension Plan Borrowing	611	1,130	423	(707)
Long-Term Public Borrowing	8,456	9,056	10,240	1,184
of which: Completed			7,369	
Remaining			2,871	

* Maturing debt is lower than the Budget Plan due to the Province exercising its options on extendible bonds.

◆ Long-term public borrowing undertaken in the second quarter totalled \$1,537 million as follows:

	(\$ Millions)
Domestic Issues	1,438
Euro Medium Term Notes	99
	1,537

◆ In addition to the borrowing and redemptions shown in the table, the Province has bought back \$261 million of previously issued debt, financing the purchases with similar amounts of debt issued at more favourable rates.

◆ The forecast Net Provincial Debt as of March 31, 2002, is \$110.6 billion, down \$0.1 billion from the 2001 Budget Plan and First Quarter Ontario Finances as a result of the downward revision to Net Provincial Debt reported in the 2000-01 Public Accounts.

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TABLE 2 2007-08 FINANCING PROGRAM

Category	2007-08	2006-07
General Fund	1,000	1,000
Capital Projects	1,000	1,000
Debt Service	1,000	1,000
Grants	1,000	1,000
Other	1,000	1,000
Total	5,000	5,000

The following table shows the estimated amounts of the various sources of revenue for the fiscal year 2007-08. The amounts are based on the best available information and are subject to change. The amounts are shown in millions of dollars.

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